

Weekly Market Bulletin

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From Your Commissioner...

Ethanol and Farm and Food Costs

Readers of some of the national agribusiness publications have seen a lot of articles and editorials claiming that federal ethanol subsidies and mandates have little or nothing to do with the rising price of food. These authors plead to the contrary, that by replacing petroleum in gasoline blends corn-based ethanol has reduced pressure on the limited supply of oil, keeping fuel (and food) prices from soaring even higher. In May Secretary of Agriculture Ed Schafer and USDA Chief Economist Joe Glauber held a press conference to make the same case.

Not so, says a new study by Keith Collins, former chief economist for USDA. In his study delivered to EPA, titled "The Role of Biofuels and Other Factors in Increasing Farm and Food Prices," Collins warns that unless the renewable fuel standard (RFS) is suspended or revisited, the already dangerously low U.S. grain stocks will fall even further as ethanol consumes a larger portion of the nation's dwindling corn supply. The Energy Policy Act of 2005 requires increasing the use of renewable fuels every year through 2012. Collins says government support for converting corn into ethanol interferes with the "normal price rationing functions of markets when supplies are short." Such as when floods wipe out acres and acres of cornbelt plantings. Two to four million acres of corn may have been lost in the recent flooding in the Midwest.

All livestock farmers know that prices they are getting for milk, meat or eggs are not keeping up with the grain bills. Collins's analysis suggests that increased ethanol-driven corn demand could account for 25 to 50 percent of the corn price increase expected from 2006/07 to 2008/09. But the Collins paper says when market demand and supply are inelastic with respect to price—which describes the current situation of very low stocks, feed use slow to respond, strong export demand, and very constrained acreage—ethanol could account for 60 percent of the expected increase in corn prices between 2006/07 and 2008/09.

The Collins study estimates that biofuels will cause retail food price increases 23-35 percent above the normal increase in food prices that would occur over 2-3 years. Ethanol mandates and subsidies will pull acres away from other crops, causing shortages and higher prices to ripple through the whole feed and food system.

Another study by Dr. Thomas Elam of FarmEcon LLC concludes that ethanol has only reduced fuel prices by about four cents. He says cutting the RFS by half would reduce the price of corn by \$2.25/bushel. (For comparison, \$2.25 would have been considered a decent price for corn just a few years ago. Last week corn was over \$7.00/bushel.) "The increase in fuel production made possible by RFS is almost too small to measure against the global energy market, but the effects on food prices and security are huge," Elam said.

Both studies, and more, can be found on a new website www.foodbeforefuel.org, created by as strange a collection of advocates as you will find in politics.

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All these changes and uncertainties in energy use and prices are shifting the 'old math' of food and agriculture. Just as consumers are looking for ways to save money and changing some of their habits, farmers are taking a hard look at how costs and market prices will affect their bottom lines. All these factors makes regional, place-based agricultural research and education increasingly important. In a guest column this week, UNH Dean of Life Sciences and Agriculture Tom Brady reports on the college's strategic plan and reorganization. He and new Associate Dean and Associate Director of the NH Agricultural Experiment Station Jon Wraith will be looking for support and suggestions from the state's agricultural community.

Lorraine Merrill, Commissioner